

**Follow-Up Audit  
Tow Service Program**

August 1999

**City Auditor's Office  
City of Kansas City, Missouri**



August 9, 1999

Honorable Mayor and Members of the City Council:

This follow-up audit of the city's tow service program was initiated in accordance with the City Auditor's Office policy of assessing the implementation of previous audit recommendations. The follow-up assesses the city's progress in addressing problems we identified and recommendations we made in the January 1995 performance audit of the tow service program.

Our 1995 audit focused on cutting costs, increasing revenues, and setting fees so the tow service program would be self-supporting. Program management has been very responsive to our recommendations. Most recommendations have been implemented and fees have covered most program costs.

Program management took steps to reduce costs, such as reducing the number of tow trucks and staff and rebidding contracts. However, program expansion and relocation have increased program expenditures over the last several years. Rent of land due to relocation is the largest increase in expenditures. Although the city is towing more vehicles than in the original audit, the cost per tow has increased. The configuration of the current lot limits usable space. Program management reports that the lot fills up each month and the city stops towing abandoned and illegally parked vehicles. The benefits of the program - improved traffic safety and decreased blight - may be lessened. Constrained capacity also increases the cost per tow as fixed costs, such as for land and personnel, are allocated to fewer tows.

Our original recommendation that fees be set to cover program costs was unclear. We intended for fee revenue to cover the tow and storage costs of vehicles that are released to their owners and auction revenues to cover the costs of unclaimed vehicles. Neighborhood and Community Services (NCS) set the current fee with the intention that tow and storage fees would pay for total program costs. The current fee exceeds the average cost of towing and storing a vehicle.

However, fee waivers are affecting revenues. In 1997 the City Council authorized the Police Department to waive tow and storage fees for stolen vehicles. Fees could be waived for about 25 percent of released vehicles. While the current fee exceeds the average cost of towing and storage, total fee revenues are less than expected and less than total program costs. A comprehensive fee system, such as we recommended in our February 1998 report *Fees and Service Charges: A Comprehensive System is Needed*, could help to provide guidance for setting appropriate tow and storage fees.

NCS plans to consolidate all program activities within their department; three departments presently share responsibilities for the tow operation and auction of unclaimed vehicles. Consolidation could streamline the operation and be more convenient for persons claiming their towed vehicles. Program management should carefully consider internal controls in planning for consolidation. Internal control weaknesses in the past have resulted in significant fraud and theft. NCS plans to build a new facility on city-owned property will also provide an opportunity to address capacity and security concerns. Implementation of a new computer system developed by NCS staff should also help streamline the operation. We provided management with specific suggestions related to system security in a separate memo.

The draft follow-up report was sent to the city manager, the director of neighborhood and community services, the finance director and the chief of police on June 18, 1999. We requested a written response from the director of neighborhood and community services. His response is appended. We appreciate the courtesy and cooperation extended to us by all staff during this project. The audit team for this project was Vivien Zhi, Martin Tennant, and Amanda Noble.

Mark Funkhouser  
City Auditor

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# Follow-Up Audit: Tow Service Program

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## Table of Contents

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Introduction	1
Objectives	1
Scope and Methodology	1
Background	2
Legislative Authority	3
Program Activities	4
Summary of the 1995 Performance Audit	6
Findings and Recommendations	7
Summary	7
Costs Control Efforts Offset by Other Factors	8
Program Management Attempted to Control Costs	8
Tow Lot Capacity Is a Problem	10
Fee Revenue Covers Most Program Costs	13
Fee Revenues Have Increased	14
Fee Setting Methodology Needs Guidance	15
Fee Waivers Affect Revenues	17
Auction Revenues Have Increased	18
Internal Controls Should Be Strengthened	19
Lack of Internal Controls Contributed to Fraud and Theft	20
Recommendations	22
Appendices	
Appendix A: Status of 1995 Audit Recommendations	23
Appendix B: Audit Report Tracking System (ARTS) Reports	27
Appendix C: Neighborhood and Community Services Director's Response	45

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## **Follow-Up Audit: Tow Service Program**

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### **List of Exhibits**

Exhibit 1	Yearly Tow Truck Maintenance Expenses	8
Exhibit 2	Cost Per Tow	10
Exhibit 3	Number of Vehicles Towed; Fiscal Year 1994 Compared to Calendar Years 1996 - 1998	11
Exhibit 4	Number of Vehicles Released; Fiscal Year 1994 Compared to Calendar Years 1996 - 1998	11
Exhibit 5	Storage Days for Released Vehicles	12
Exhibit 6	Tow Service Program Costs and Revenues	15
Exhibit 7	Tow Costs Allocated to Released and Unclaimed Vehicles	15
Exhibit 8	Comparison of Cost Per Tow and Fees	17
Exhibit 9	Number of Bidders and Median Bid	19

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## Introduction

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## Objectives

This follow-up audit of the tow service program was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making.<sup>1</sup> A follow-up audit examines the actions an agency has taken in response to the problems identified and recommendations made in a previous audit.

This follow-up audit was designed to answer the following questions:

- What has the city done to control costs of the tow service?
- Are tow and storage fees, and methods for setting the fees, adequate to cover program costs?
- What has the city done to increase revenues of the tow service?

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## Scope and Methodology

This follow-up audit is not intended to be another full-scale audit of the tow service program; rather, we assess the city's progress in addressing problems and implementing recommendations from the January 1995 report. Our work focused primarily on fiscal years 1997 and 1998. Because most of our audit work was conducted before the close of fiscal year 1999, we report estimated revenues and expenditures for this year.

We conducted this audit in accordance with generally accepted government auditing standards, except for completion of an external quality control review of the office within the last three years.<sup>2</sup> Our methods included:

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p. 14

<sup>2</sup> Our last external review was April 1995; a review is planned later this year.

- Interviewing staff in the Neighborhood and Community Services, Finance, and Police departments.
- Interviewing local salvage dealers.
- Analyzing financial information in the city's mainframe accounting system for fiscal years 1997 through 1999.
- Analyzing tow lot activity information for calendar years 1996 through 1998, extracted from the city's mainframe tow system.
- Reviewing 809 tow-in reports and release records for September 1998.
- Analyzing monthly auction reports for January 1997 through March 1999.
- Requesting the Law Department review state statutes and city code sections regulating vehicle towing.
- Reviewing Audit Report Tracking System (ARTS) reports and auditor's workpapers from our January 1995 Tow Service Program audit.

No information was omitted from this report because it was deemed privileged or confidential.

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## **Background**

The tow service program was reorganized since we released our original audit in January 1995. The Public Works Department administered the program at the time. The Neighborhood and Community Services Department (NCS) took over the program in 1997. Since the 1995 audit, the tow lot was moved to make way for riverfront development. In spring of 1996, the operation moved from city property at Riverfront Road and Lydia to its current location at 3800 Raytown Road.

The tow lot is budgeted about \$1.5 million in fiscal year 2000. The city currently charges \$100 for towing and \$10 per day for storage. Storage begins to accrue when the vehicle enters the tow lot but storage fees are waived when a vehicle is redeemed within 24 hours of arrival. In fiscal year 2000, the city expects to receive almost \$2.6 million from tow fees and sales of unclaimed vehicles.



## Legislative Authority

Vehicles are towed to the city tow lot by order of the Police Department or other authorized officials. The Neighborhood and Community Services Department manages the city tow lot. Vehicles are towed and impounded for safe keeping in order to keep streets and public places safe and open, to remove illegally parked vehicles on public and private property, and to hold recovered stolen vehicles or vehicles for evidence. As stated in the code:

Any police officer or other authorized official who has reasonable grounds to believe that a vehicle or other personal property has been abandoned may remove...or cause it to be removed, at the expense of the owner...the police department shall notify the registered owner of the vehicle, or any lienholder, giving grounds for removal and the name of the garage or place where the vehicle is located.

A vehicle or other personal property shall be presumed to be abandoned, if it is left unattended on a street or highway for a period in excess of 48 hours, or is left on any public or private property without express or implied consent of the owner or person in lawful possession or control of such property.<sup>3</sup>

Various other sections of the city code and state statute prohibit abandoning vehicles, authorize the city to remove and impound vehicles under certain conditions and, after 30 days of mailing notification to the owner, to sell unclaimed vehicles at public auction.

**Changes since the original audit.** The City Council passed ordinances to reorganize the tow lot operation, to respond to audit recommendations and to comply with Senate Bill 560, passed by the Missouri General Assembly in 1996. The ordinances: 1) gave the Police Department sole authority to remove vehicles; 2) transferred tow lot operations from the Public Works Department to the Neighborhood and Community Services Department; 3) changed methods for calculating and waiving storage fees for vehicles claimed within 24 hours; 4) allowed police to waive fees on stolen vehicles; 5) directed NCS and the city manager to establish tow-in charges; and 6) strengthened the city's ability to seek payment from property owners for maintaining nuisance vehicles on their property.

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<sup>3</sup> Code of Ordinances, Sec. 70-641, Kansas City, Missouri.

### **Changes to the City Code**

Ordinance 961533 – Section 70-642 eliminates authority of the Public Works Department to remove vehicles and placed that authority entirely in the Police Department. Section 70-643 declares that calculation of storage fees commence at the time of impoundment but are waived when the vehicle is claimed within 24 hours. Stolen vehicles are added to vehicles removed for emergencies or street care as the cases where police may grant fee waivers.

Ordinance 970654 – Section 70-643 requires the director of Neighborhood and Community Services to assist the city manager in setting the annual tow-in charge.

Ordinance 970654 – Section 70-644 replaces the director of Public Works with the director of Neighborhood and Community Services as the supervisor of the tow lot.

Ordinance 970674 – Section 54-144 replaces the director of Public Works with the director of Neighborhood and Community Services as the supervisor of the tow lot.

Ordinance 971346 – Section 48-865 replaces the director of Public Works with the director of Neighborhood and Community Services as the supervisor of the tow lot.

Ordinance 971346 – Section 48-966 replaces the director of Public Works with the director of Neighborhood and Community Services as the supervisor of the tow lot and declares that the cost of towing is a personal debt of the owner of the property from which the vehicles are towed in order to abate a nuisance maintained by the property owner.

### **Program Activities**

The Police Department forwards requests for tows from officers in the field to the tow service dispatcher. Tows are sometimes requested by the tow service's abandoned vehicle inspector and sometimes by environmental inspectors. Tows are performed by six private tow operators with city contracts that cover eight towing areas. The city maintains three tow trucks for use within the lots and if contractors are not able to perform all required tows. In 1998, the tow lot received 16,028 vehicles.

**Releasing vehicles.** Owners redeem their vehicles by paying tow and storage fees at the Police Department's tow desk at Police Headquarters

downtown. City ordinance authorizes the Police Department to waive towing and storage fees for stolen vehicles. The owner receives a Tow-in Release after providing proof of ownership and paying the required fees. This release serves as a receipt with which the owner can retrieve the vehicle at the tow lot.

**Unclaimed vehicles.** State statute requires that notification be mailed to owners and any lien holders within five days of impounding a vehicle. If the vehicle remains unclaimed 30 days after notice, the city may sell the vehicle at public auction. Few auctioned vehicles are accompanied by a certificate of title; successful bidders must first pay the bid amount and obtain a bill of sale from the Finance Department at City Hall before they can take possession of the vehicle.

### **Division of Duties**

The city, through its NCS and Finance departments, and the Police Department share responsibilities for tow lot operations and the auction of unclaimed vehicles.

#### **The Police Department is responsible for:**

- Ordering the majority of city tows.
- Confirming owner and vehicle identification number of the towed vehicle through the Missouri Department of Revenue.
- Mailing notification within five days of impoundment to the registered owner or any lien holder of the towed vehicle.
- Determining which vehicles should be held for evidence.
- Collecting towing and storage fees.
- Authorizing the release of vehicles from the tow lot.

#### **The Neighborhood and Community Services Department is responsible for:**

- Operating the city's tow lot.
- Administering contracts with private tow operators.
- Setting tow and storage fees.
- Providing lists of vehicles to be auctioned to the Finance Department.

#### **The Finance Department is responsible for:**

- Administering and publicizing the monthly auction of unclaimed vehicles.
- Collecting bid amounts and supplying buyers with bills of sale and applications for title to vehicles.

**Proposed program consolidation.** NCS plans to consolidate all program activities, including the notification and collection of payments and the monthly auction of abandoned vehicles.<sup>4</sup> Both the Police and Finance departments support consolidation, which is expected to streamline the operation and be more convenient for persons claiming their towed vehicles.

### **Summary of the 1995 Performance Audit**

Our original audit focused on cutting costs and increasing revenues so the program would be self-supporting. The report had four findings: (1) nearly 98 percent of the vehicles were towed at the request of the Police Department; (2) the program could save money by reducing and restructuring staffing and reducing the number of city-owned tow trucks; (3) the city could save acquisition costs on the new lot if vehicles were held for a shorter amount of time; and (4) fees for towing and storage were not covering the program's costs. We made four recommendations intended to cut costs; six recommendations primarily aimed at increasing revenues and two recommendations regarding information systems. See Appendix A for the status of the recommendations as determined by our audit work.

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<sup>4</sup> Charter Section 77 provides that the director of finance will be responsible for the sale of city property. Therefore, the Charter must be amended or the NCS Department must be properly delegated the responsibility while the Finance Department retains accountability for the program.

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## Findings and Recommendations

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### Summary

Our 1995 audit focused on cutting costs, increasing revenues, and setting fees so the tow service program would be self-supporting. Program management has been responsive to our recommendations. Most recommendations have been implemented and fees have covered most program costs.

Program management took steps to reduce costs, however, program expansion and relocation have increased program expenditures and the cost per tow. The configuration of the current lot limits usable space and constrains the number of vehicles towed, thus limiting the benefits of the program.

Our original recommendation that fees be set to cover program costs was unclear. We intended for fee revenue to cover the tow and storage costs of vehicles that are released to their owners and auction revenues to cover the costs of unclaimed vehicles. NCS set the current fee with the intention that tow and storage fees would pay for total program costs. Thus while not always the case, the current fee exceeds the average cost of towing and storing a vehicle.

The City Council authorized the Police Department to waive tow and storage fees for stolen vehicles. Fees could be waived for about 25 percent of released vehicles. NCS did not consider the effect of fee waivers when setting the current fee. While the current fee exceeds the average cost of towing and storage, total fee revenues are less than expected and less than total program costs. A comprehensive fee system, such as we recommended in our February 1998 report, *Fees and Service Charges: A Comprehensive System is Needed*, could help to provide guidance for setting appropriate tow and storage fees.

NCS plans to consolidate all program activities within their department, including responsibility for notifying owners, accepting payments, and conducting the auction. Consolidation could streamline the operation and be more convenient for persons claiming their towed vehicles. Program management should carefully consider internal controls in planning for consolidation. Internal control weaknesses in the past have resulted in fraud and theft.

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## Costs Control Efforts Offset by Other Factors

In the original audit, we recommended reducing staff and equipment as the tow service contracted for more tows. We also suggested that decreasing the length of time vehicles are held at the tow lot could result in the city needing a smaller lot than was planned. These recommendations were intended to reduce the cost of the tow lot.

Program management took steps to control costs, such as reducing the number of tow trucks and staff and rebidding contracts. However, city policy decisions increased program expenditures over the last several years. Expenditures increased primarily due to rent of land as the tow lot was relocated and increased personnel costs as the program was expanded. Although the city is towing more vehicles than in the original audit, the cost per tow has increased.

Capacity of the tow lot is still an issue following its relocation. Program management reports that the lot fills up each month and the city stops towing abandoned and illegally parked vehicles. This capacity constraint lessens the benefits of the program.

### Program Management Attempted to Control Costs

We recommended in the original audit that the program reduce the number of staff and equipment in response to the shift to more contract towing. These recommendations were implemented. Management has also worked to control costs by rebidding the tow contracts.

**Tow truck maintenance and repair costs were significantly reduced.** The program cut the number of tow trucks owned and maintained by the city from nine to three. The maintenance costs of the tow trucks dropped significantly, saving about \$100,000 per year compared to fiscal year 1994. (See Exhibit 1.) Maintenance and repair costs per truck still seem high, probably because the three trucks are old and have high mileage. The program requested funds to lease three new trucks in the fiscal year 2000 budget.

Exhibit 1. Yearly Tow Truck Maintenance Expenses

Fiscal Year	1994	1997	1998
Tow Truck Repair Costs	\$134,052	\$32,095	\$36,073

Source: Motor Equipment Division data.

**Tow contracts were rebid in June 1998.** Rebidding tow contracts saved money as the average contract payment per tow decreased from

\$37.28 in fiscal year 1997 to \$34.89 in fiscal year 1998. Since fiscal year 1996, all the tows have been contracted. According to program management, the bidding process had been conducted through the Finance Department's purchases and supplies division and contracts were frequently renewed. NCS rebid the contracts in June 1998, requesting prices based on areas and the size of vehicles (light, medium, and heavy). There were 9 bidders bidding for 13 contracts. Six of the bidders were awarded contracts. The department also requested separate bids for towing vehicles within the tow lot. This service is now provided for \$7.50 per tow, which, according to management, is comparable to the in-house cost. Previously they paid contractors the same amount to tow within the lot as within a zone (about \$30).

**Authorized positions have been reduced.** The number of authorized positions was cut from 15 to 13 in fiscal year 1997; then increased to 15 in fiscal year 1998. A vacant position was eliminated in fiscal year 1999. The current budget authorizes 14 positions at the tow service. The rationale for adding positions in fiscal year 1998 was "to assist police and citizens with off-street tows." However, the number of tows decreased slightly in fiscal year 1998. Management said that the reduction in staff increased overtime expenses. Overtime has been between \$23,000 and \$45,000 since fiscal year 1995 and does not seem unreasonable for a 24-hour operation.

**Increase in expenditures is mostly due to program expansion and relocation.** Program expenditures increased 30 percent between fiscal years 1994 and 1999, mainly due to rent of land after the tow lot moved to its current location. The tow lot moved to its current location from city-owned property in spring of 1996 to make way for development of the riverfront area. The current rent of \$150,000 a year was the single largest increase in expenditures. Personal services also increased as positions were added back to the program.

According to program management, poor configuration of the current rented lot has also added costs. The current facility is separated into three different lots. Vehicles are towed from one lot to another to prepare for the monthly auction of unclaimed vehicles.

While the number of vehicles towed has increased since our original audit, the cost per tow has increased, and the number of tows has declined over the past three years. (See Exhibit 2.)

Exhibit 2. Cost Per Tow

Fiscal Year	1994	1997	1998	1999
Program Costs <sup>5</sup>	\$1,195,765	\$1,449,769	\$1,525,422	\$1,551,779
Vehicles Towed	14,479	16,897	16,264	15,701
Cost Per Tow	\$82.59	\$85.80	\$93.79	\$98.83

Sources: GFS documents and city tow records.

### **Tow Lot Capacity Is a Problem**

In the original audit, we recommended that the tow service shorten the amount of time that impounded vehicles are kept prior to disposal and evaluate the space needs of the tow lot in light of this change before relocating the facility. This recommendation was intended to reduce future costs if a smaller lot could be used.

The recommendation was not implemented. Space needs are still a consideration, however. The shape of the current lot limits usable space. Program staff estimates there were 1,800-2,000 spaces in the previous lot at the riverfront area, whereas they estimate there are about 1,500 spaces in the current lot. Program management reports that the lot fills up each month and the city stops towing abandoned and illegally parked vehicles.

**Plans to relocate.** NCS is planning to build a new lot on city-owned property. According to management, a new facility would alleviate space, security, and configuration problems. In addition, the new facility would be more hidden from public view, addressing concerns of business owners near the current location. Construction, however, cannot begin for about three years because the proposed site is in the Blue River floodway. The Blue River flood project will alleviate this concern.

**Capacity is still an issue at the tow lot.** The tow service moved to a lot with less usable space. According to program management, the lot usually runs out of space within three weeks after the auction. When this occurs, the program stops towing illegally parked and abandoned vehicles and limits tows to those requested by the police or vehicles blocking traffic. Staff told us that they have received complaints from the Police Department and some councilmembers because they cannot accept additional towed vehicles.

The benefits of the program - improved traffic safety and decreased blight - may be lessened. Constrained capacity also increases the cost per tow as fixed costs, such as for land and personnel, are allocated to fewer tows.

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<sup>5</sup> This figure includes direct program expenditures and estimates of Police Department tow desk costs and allowable overhead, but excludes costs related to the auction.



More tows, fewer releases, an increase in the number of cars held by the police and notification problems contribute to capacity problems.

**The city is towing more vehicles.** The city is now towing about 1,500 more vehicles per year than in fiscal year 1994 with the largest increases in the number of abandoned and illegally parked vehicles. While the number of tows has increased substantially compared to the original audit, the number of tows has been dropping since 1996, perhaps reflecting the lack of space. (See Exhibit 3.)

Exhibit 3. Number of Vehicles Towed; Fiscal Year 1994 Compared to Calendar Years 1996 - 1998

Reason for Tow	FY94	1996	1997	1998
Abandoned	1,416	2,423	2,699	2,568
Stolen	4,173	2,894	3,118	3,362
Accidents	1,989	2,148	2,230	2,056
Illegal Parked	2,153	4,031	3,683	3,202
Arrests	4,748	5,009	4,762	4,840
<b>Totals</b>	<b>14,479</b>	<b>16,505</b>	<b>16,492</b>	<b>16,028</b>

Source: City tow records.

**The number of vehicles released to owners is declining.** While the number of tows increased, the number of vehicles claimed and released to owners dropped slightly. (See Exhibit 4.) The percentage of vehicles released to owners decreased for all categories of tows, with the largest decrease in abandoned and illegally parked vehicles, the types of vehicles that the city is towing more frequently. At the time of our original audit, about three-quarters of towed vehicles were released to owners. Now about two thirds of the vehicles are released. Vehicles that are not claimed require longer storage, resulting in less space on the tow lot for additional vehicles.

Exhibit 4. Number of Vehicles Released; Fiscal Year 1994 Compared to Calendar Years 1996 - 1998

Reason for Tow	FY94	1996	1997	1998
Abandoned	725	1,092	1,171	1,001
Stolen	3,623	2,450	2,557	2,743
Accidents	1,333	1,264	1,358	1,166
Illegal Parked	1,410	2,226	2,011	1,636
Arrests	4,205	4,217	3,926	4,005
<b>Total Released</b>	<b>11,296</b>	<b>11,249</b>	<b>11,023</b>	<b>10,551</b>
Vehicles Towed	14,479	16,505	16,492	16,028
Unclaimed Vehicles	3,183	5,256	5,469	5,477

Source: City tow records.

**Police are holding more vehicles and for longer periods.** Police hold some towed vehicles for evidence. According to program management,

they at one time agreed to hold 150 vehicles for the Police Department. However, they are now holding about 300 vehicles and the hold lot is full. Once a hold is requested, the vehicle is held until the Police say it can be released. Some vehicles are held for one or two years. Although the percentage of vehicles released within 24 hours in fiscal year 1998 increased, the number of vehicles held beyond 30 days increased as well. (See Exhibit 5.)

Exhibit 5. Storage Days for Released Vehicles

Fiscal Year	Number	Releases			
		Within 24 Hours	Over 30 Days	Over 60 Days	Over 90 Days
1997	11,362	4,195	480	135	46
1998	10,912	4,151	560	171	49

Source: City tow records.

**Allow holds to expire.** Program management has drafted code changes that would allow holds to expire. Police would have to request additional time beyond 30 days or the vehicle would be released. This could provide an incentive for the Police to avoid holding cars longer than necessary. The program could also consider charging the Police Department to store the vehicles.

**Notification uncertainty delays disposing of unclaimed vehicles.** The tow lot routinely holds vehicles for 60 to 90 days before disposing of them to give the Police Department more time to send notices. Under state statute, the Police Department is responsible for notifying owners and lien holders that the vehicle has been impounded. If the vehicle remains unclaimed for 30 days after notification, the city may sell it at the public auction. However, the Police Department does not have a system to track notifications and staff agree that the notices are often sent more than five days after the vehicle was towed.

It is unclear who is supposed to follow-up on the initial notification. Police Department personnel told us that the state notifies NCS when ownership information is incorrect and requires follow up. NCS provides the information to the Police Department, but records unit staff said that they are not required to follow-up and do not have time. The Finance Department, which publishes the list of cars to be auctioned, does not always make a follow up check regarding notice to the required parties of the forthcoming sale. Finance staff told us they thought the Police were responsible for the notices.

As a result, some vehicle owners claimed their vehicles had been sold without being properly notified. During 1997 and 1998, the city paid \$13,423 and \$18,837 respectively in settlement of claims arising from

the tow lot. The city paid \$15,231 in settlement of claims in the five-month period from January 1 to May 4, 1999. To try to solve this problem, the Finance Department is deliberately holding 1998 and 1999 vehicles longer before they are auctioned.

**Responsibility for follow-up should be fixed.** NCS wants to take over notification duties to streamline the process and dispose of vehicles more quickly. Under state statute and city code, the minimum holding period before auction of an impounded vehicle is 30 days after notification. The Police Department has agreed to delegate its duties to make filings with the Missouri Department of Revenue and send an initial notice to the owner of the property. Accurate tracking of when notices are sent and fixing responsibility for follow-up could allow vehicles to be held for a shorter time before disposing of them at auction.

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## Fee Revenue Covers Most Program Costs

We made six recommendations primarily aimed at increasing revenues. Most of these recommendations have been implemented. Tow and storage fees were increased twice and fee revenue covers most program costs.

However, our original recommendation that fees be set to cover program costs was unclear. We intended for fee revenue to cover the tow and storage costs of vehicles that are released to their owners and auction revenues to cover the costs of unclaimed vehicles. Management set the fee with the intention that program costs be fully covered by fee revenues. This decision results in persons who pay to claim their towed vehicles subsidizing those who abandon their vehicles. The current fee exceeds the average cost of towing and storing a vehicle.

The City Council authorized the Police Department to waive tow and storage fees for stolen vehicles. Fees could be waived for about 25 percent of released vehicles, requiring subsidy from those who pay to claim their vehicles or taxpayers. NCS did not consider the effect of fee waivers when setting the current fee. While the current fee exceeds the average cost of towing and storage, total fee revenues are less than expected and less than total program costs. However, if auction revenue is intended to offset the cost of unclaimed vehicles, then fee revenues have exceeded program costs.

We have previously recommended the city manager propose a citywide fee policy for City Council consideration that would describe the level of cost recovery expected from different classifications of fees. We also

recommended a formal review process to assess the adequacy of fees. Such guidance would be helpful in determining the appropriate tow and storage fee given the policy decision to waive fees in some cases.

Auction revenues have also increased as more unclaimed vehicles are auctioned. There appears to be sufficient competition at the auction to ensure that the city receives a fair price.

### **Fee Revenues Have Increased**

We recommended the city manager provide for City Council consideration an amendment to the city code to start accruing storage fees when the vehicles entered the lot, but allowing fees to be waived when vehicles are claimed within 24 hours. Previously fees did not begin to accrue until 24 hours after the car was impounded. Ordinance 951015, passed August 17, 1995, made this change.

We recommended the director of public works work with the finance director to determine the city's annual cost for tow activities and set fee levels to cover these costs. We said in the audit that towing and storage fees did not cover the tow service program's costs and the auction revenues should not subsidize the tow service – even with the subsidy, the program ran a deficit of \$139,600 in fiscal year 1994.

After our original audit, the tow-in and storage fees increased twice, from \$40 per tow with \$4 per day for storage in the original audit to \$67 per tow with \$9 per day storage in March 1996 and \$100 per tow with \$10 per day for storage in August 1998. Consequently, tow and storage revenues increased. Even though the number of vehicles released has decreased slightly, fee revenues have increased 115 percent since fiscal year 1994.

**Fee revenue has covered most of the program costs.** Since the fees have been raised, fee revenue has covered most of the program costs. In the original audit, the fee revenue covered about half of program costs. In fiscal year 1998, the fee revenue covered about 77 percent of program costs. With the fee increase in August 1998, the fee revenue will cover about 83 percent of program costs. Exhibit 6 compares program costs and revenues. For program costs, we include direct program expenditures, estimates of Police Department tow desk costs and allowable overhead, but exclude costs related to the auction.

Exhibit 6. Tow Service Program Costs and Revenues

Fiscal Year	Program Costs	Fee Revenues	Fee Revenues Less Program Costs	Auction Revenues <sup>6</sup>
1994	\$1,195,765	\$599,211	\$(596,554)	\$536,658
1997	1,449,769	1,267,837	(181,932)	982,585
1998	1,525,422	1,172,007	(353,415)	1,122,915
1999 (YTD)	1,551,779	1,287,301	(264,478)	1,045,258

Source: GFS documents.

In the original audit, we recommended that fee revenues should cover tow service program costs. We intended that the tow and storage costs of unclaimed vehicles would be covered through the auction and net auction proceeds would benefit the general fund. However, our recommendation was not clear and NCS set the current fee with the intention that fees paid for released vehicles would cover all program costs. If auction revenue is intended to offset the cost of unclaimed vehicles, then fee revenues have exceeded program costs. (See Exhibit 7.)

Exhibit 7. Tow Costs Allocated to Released and Unclaimed Vehicles

Fiscal Year	Cost of Released Vehicles	Fee Revenues	Cost of Unclaimed Vehicles	Auction Revenues
1994	\$918,028	\$599,211	\$277,737	\$536,658
1997	974,864	1,267,837	474,905	982,585
1998	1,023,451	1,172,007	501,971	1,122,915
1999 (YTD)	1,042,318	1,287,301	509,460	1,045,258

Source: GFS documents.

### Fee Setting Methodology Needs Guidance

We previously recommended the city manager propose a fee policy for City Council consideration that would describe the level of cost recovery expected from different classifications of fees. We also recommended a formal review process to assess the adequacy of fees.<sup>7</sup> Such guidance would be helpful in determining the appropriate tow fee.

We reviewed the method NCS used to set the most recent fee and noted a few problems. The cumulative effect of these problems is that the fee appears to be set too high if auction revenues should cover the costs associated with unclaimed vehicles. We estimate that this year's fee revenue will be about \$245,000 more than the program costs related to

<sup>6</sup> Auction revenues prior to fiscal year 1999 included revenues from city property sold at auction as well as unclaimed property.

<sup>7</sup> *Fees and Service Charges: A Comprehensive System is Needed*, Office of the City Auditor, Kansas City, Missouri, February 1998, pp. 35-36.

vehicles that are released to owners. However, if the fee is adjusted to reflect the fully allocated cost per tow, waived fees will affect the program's ability to be self-supporting.

**Released vehicles bear the cost of unclaimed vehicles.** The current fee was set with the intent that fee revenues would cover all program costs. Program expenditures are borne by those who pay to claim their vehicles - subsidizing those who abandon their vehicles. In our original audit we provided an example of what the fee should be to cover program costs. In our analysis we used auction revenues to offset the towing costs of unclaimed vehicles. However, our recommendation was unclear. If auction revenues offset the cost of towing vehicles that are ultimately not claimed, the fee is set too high. Currently about two thirds of towed vehicles are released to owners.

**Fee waivers were not considered.** The current fee was set without consideration of fee waivers. The city code authorizes fees to be waived on stolen vehicles, which account for about 25 percent of vehicles released to owners. If the cost of uncollected fees can be passed to those who do pay fees, this results in setting the fee too low. However, it is unclear whether uncollected fees may be considered as a program cost for the purposes of setting fees. Fee waivers may require a general taxpayer subsidy to cover program costs. A comprehensive fee policy should address the issue of who should bear the tow and storage costs of vehicles for which the fee is waived.

**Overestimated number of tows.** The current fee was set based on an optimistic estimate of the number of vehicles towed. The analysis assumed 17,600 vehicles towed, an 8 percent increase over the prior year. This level of activity is unrealistic given the tow lot's capacity constraint. In fiscal year 1999, 15,701 vehicles were towed. If the fee is adjusted to reflect the fully allocated cost per tow, overestimating the number of tows results in setting the fee too low.

**Auction costs should not be included.** The NCS cost analysis to set the program fee was appropriate, except auction costs should not be included. The cost analysis included the operating costs for the tow lot, such as personal services, contractual services and commodities; an estimate of Police Department tow desk costs; and costs related to the auction, such as advertising, auctioneer, and time of Finance Department staff. All the costs included seem reasonable except we think the auction costs would be more appropriately covered by auction proceeds rather than fee revenue. Auction costs were about \$130,000 in fiscal year 1999.

The cumulative affect of these problems is that the tow and storage fee per vehicle exceeds the average cost of towing and storage. (See Exhibit 8.)

Exhibit 8. Comparison of Cost Per Tow and Fees

Fiscal Year	1994	1997	1998	1999
Cost Per Vehicle Towed	\$82.59	\$85.80	\$93.79	\$98.83
Tow Fee/Storage Per Day	\$40/4	\$67/9	\$67/9	\$100/10
Median Days Stored	Not available	2	1	1 <sup>8</sup>
Average Fee Paid	\$53.91	\$111.59	\$107.41	\$122.07

Sources: GFS documents and city tow records.

### Fee Waivers Affect Revenues

In the original audit we recommended the chief of police assess all owners tow fees in accordance with the city code or propose to the City Council changes to the code to authorize fee waivers. Ordinance 961553, passed January 9, 1997, amended the code to authorize fee waivers for stolen vehicles.

**Waivers are substantial.** The amount of waivers is substantial – 25 percent of the release tickets we reviewed had some or all of the fees waived.<sup>9</sup> The waived amount was 11 percent of the total amount due. The release tickets do not say why a fee was waived; reasons for waivers are supposed to be written on the “tow envelope” stored at the Police Department’s records unit. The day supervisor of the records unit told us that most waivers are for stolen vehicles or storage for vehicles held for evidence. Police have also waived fees for “hardship cases.”

**Fees are waived at discretion of the Police Department.** There are no written policies and procedures to describe circumstances under which waivers are appropriate except the duty manual states that vehicles held for evidence will not be assessed storage fees. In addition, the amount and reason for waivers are not tracked and reported. The absence of guidelines and tracking allows for waivers to be granted inconsistently and for potential abuse.

**Waivers should be monitored.** The program manager should work with the Police Department to develop policies and procedures to describe circumstances under which waivers are appropriate. The program manager should also develop a system to track the amount and reason for fee waivers.

<sup>8</sup> Assuming no change from fiscal year 1998.

<sup>9</sup> We reviewed 809 release tickets for vehicles towed in September 1998 and calculated the difference between the amount due based on the tow and release dates and the amount paid. We were unable to locate 71 records.

### **Auction Revenues Have Increased**

In the original audit, we made several recommendations primarily aimed at increasing auction revenues. We recommended changes in auction procedures such as disposing of unclaimed vehicles according to their potential value and taking steps to increase competition. We recommended a minimum bid for vehicles sold at auction, a reduced entry fee, and advertising the auctions in more publications.

The auction entry fee was eliminated and the number of bidders at the auction has increased. Because there appears to be sufficient competition at the auction, we are withdrawing the minimum bid and advertising recommendations.

Despite the increase in bidders, the median bid price has decreased in recent months, probably due to reduced steel prices. Overall, auction revenues have increased as more unclaimed vehicles are auctioned. Prior year revenues may also have been affected by theft of vehicles.

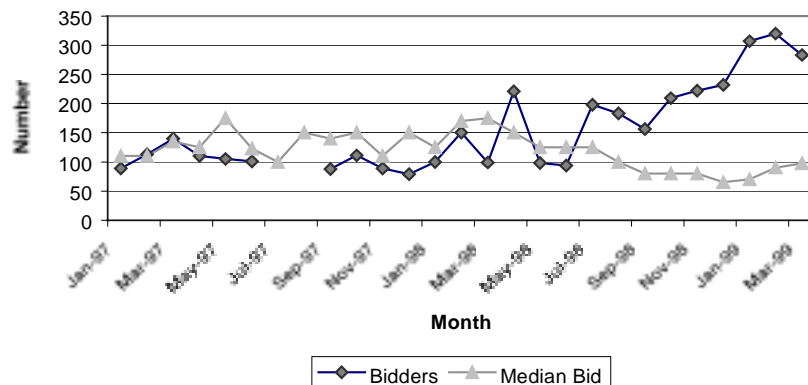
**Overall auction revenue has increased.** Auction revenue has increased about 95 percent since fiscal year 1994. More unclaimed vehicles are sold at the auction. Prior year auction revenue may be affected by theft of vehicles. The Finance Department found that over a seven-month period ending January 1998, 141 cars may have been picked up from the auction without being paid for and an additional 175 to 200 missing cars were neither claimed nor auctioned.

We reviewed auction reports for January 1997 through March 1999. Over this period bids ranged from \$1 to \$20,000. About 500 vehicles were auctioned each month. Because not all vehicles sold at auction are paid for and picked up, a vehicle may appear in more than one auction.

**Most unclaimed vehicles are now sold for less than the city's cost of towing them.** The proportion of vehicles sold for under \$100 has increased from around 20 percent in fiscal year 1998 to about 50 percent in fiscal year 1999 (through March). (See Exhibit 9.) The median value of an auctioned vehicle fell to about \$75 in FY 1998. This is probably because of reduced steel prices. According to a local scrap dealer, scrap value is now at an all-time low.



Exhibit 9. Number of Bidders and Median Bid



Source: Finance Department auction records.

**Auction entry fee was eliminated.** The Finance Department no longer charges an auction registration fee, although their instructions to bidders and the auction advertisement still refer to the fee. The entry fee was dropped in April 1996 to decrease administrative workload, and possibly increase the number of bidders. We do not have information on the Finance Department's evaluation of the result of dropping the fees. Our analysis of auction records shows no consistent pattern in the percentage of bids actually collected each month.

## Internal Controls Should Be Strengthened

An internal audit by the Finance Department's accounts division identified theft at the tow lot and fraud related to the auction of unclaimed vehicles. The Finance Department has taken action in cooperation with NCS to correct control weaknesses that led to these problems. City management is responsible for ensuring that the city's assets and property in the city's custody are protected against loss and misuse.

We recommended in the original audit that the tow service program analyze computer capabilities and needs and develop a computer system to automate record-keeping and report preparation and track information related to the auction. NCS staff has developed and tested a new system. Implementation is expected soon.

The planned consolidation of the tow lot operation and the new tow lot computer system provide opportunities for improved control. However, checks and balances must be incorporated to maintain appropriate segregation of duties and ensure adequate control of the program.

### **Lack of Internal Controls Contributed to Fraud and Theft**

The Finance Department discovered and investigated cases of theft and fraud related to auction revenue. The department has developed procedures to reduce the likelihood of loss.

**Vehicles reported missing.** A Finance Department audit discovered that between July 1997 and January 1998, 141 auctioned vehicles had been removed from the auction lot although there was no record of the bidders' invoices having been paid. According to the Finance Department, subsequent investigation located the vehicles, but records were not adequate to determine whether they had been paid for. The Finance Department calculated that lost auction revenue could have been as much as \$118,000. Additional investigation found that other vehicles could not be accounted for in any of the city's tow lots. Inventory records do not adequately track towed vehicles but it was estimated after a physical inventory of the tow lots that from 175 to 200 additional vehicles towed during the seven months between July 1997 and January 1998 were unaccounted for.

The Finance Department revised their procedures so they do not provide buyers with a bill of sale until the vehicle is paid for. They provided training to lot staff on what documentation is needed to authorize removal of vehicles from the auction lot. In addition, accounts division staff now reconciles auction records and payments received.

**Auction records altered.** A Finance Department employee falsified auction records. Over a three-month period, the employee altered records of bids made at each auction so that four bidders were able to purchase vehicles for less than the actual bid amount. The loss of revenue amounted to about \$12,000. The employee is being prosecuted and is no longer employed by the city. Accounts division staff now compare the auctioneer's and Finance's auction bid records.

**Control weaknesses contribute to loss.** Other problems contribute to an environment where theft could occur:

- No inventory of cars at the tow lot. The computerized tow records do not indicate when an unclaimed vehicle is sold at auction. Therefore, tow lot staff do not know how many vehicles are on the lot at any given time. NCS has developed a new computer system that will track inventory.
- Records are not readily reconcilable. Information is fragmented with the Police, Finance, and NCS entering information into separate

systems. Important records, such as the reason and amount of fee waivers, are not computerized. The accounts division now manually reconciles the list of cars to be auctioned to cars on hand, although this is a cumbersome process. The new computer system will consolidate information.

- Lack of security at the hold lot. The lot where vehicles are held for evidence is not fenced or lighted. There are no guards and the lot is not within sight of tow lot employees during the normal course of their work. Building a new facility will provide an opportunity to improve physical security at the tow lot.
- Vehicles are often damaged. The tow lots are regularly filled to capacity and vehicles must be stored in close proximity. This makes it more likely that vehicles will be damaged when tow trucks move them. We also observed contract tow truck operators hoisting vehicles so high that the trailing end of the towed vehicles ground on the road surface as they were moved from the main lot onto the auction lot.
- Property was removed from vehicles. Tow staff removed audio equipment from vehicles before they were auctioned. According to the city's security manager, valuables are often missing from vehicles returned to their owners.

NCS should carefully consider internal control issues in planning for reorganization and relocation of the tow lot program. A more streamlined system can make management of the program more convenient for staff and for the public. However, these organizational changes should be made with control and accountability as a priority. We have issued a separate communication to management with specific recommendations to aid in designing better security and documentation into their new system.

**Memorandum of understanding gave the Police Department access to vehicles.** An October 1992 memorandum of understanding between the commissioner of purchases and supplies and the president of the Kansas City Board of Police Commissioners allowed the Police Department to obtain vehicles for the department's use from the auction without paying for the vehicle. Under the agreement, when the Police Department no longer had use for the vehicle, it was to be returned to the city for auction. State statute, section 304.156, does not allow the "towing company" any use of the impounded property. This agreement has now been terminated, according to the assistant city attorney who handles the legal work for purchasing.

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## **Recommendations**

1. The director of neighborhood and community services should continue to explore options to relocate the city's tow lot to city-owned property.
2. The director of neighborhood and community services should work with the Police Department to develop a policy on how long the tow lot should hold vehicles for evidence once the hold is requested. Holds should be allowed to expire or the Police Department should pay for storage.
3. The director of neighborhood and community services should establish a system to track when notices are sent to vehicle owners and lien holders and establish responsibility for follow-up.
4. The director of neighborhood and community services should refine the method used to set the tow fee to (1) exclude auction costs from program costs to be recovered by fee revenues; (2) recover the costs of unclaimed vehicles from auction revenue; and (3) consider the appropriate level of subsidy within the context of an overall fee policy.
5. The director of neighborhood and community services should develop policies and procedures to describe circumstances under which fee waivers are appropriate and ensure compliance with the city code.
6. The director of neighborhood and community services should develop a system to track the amounts and reasons for fee waivers.
7. The director of neighborhood and community services should carefully consider control issues in planning for program consolidation.
8. The director of neighborhood and community services should carefully consider physical security issues in planning for relocation to a new lot.

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## **Appendix A**

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### **Status of 1995 Audit Recommendations**



The status of the prior audit recommendations based on our audit work is provided below. Audit Report Tracking System (ARTS) reports submitted by management are included in Appendix B.

Status of Audit Recommendations	
Recommendation	Status
1. The city manager should provide the City Council and the Board of Police Commissioners with a plan to transfer dispatch responsibility for the tow service to the Police Department.	Withdrawn
2. The director of Public Works should implement a staffing plan consistent with or similar to the one in the privatization study to manage and operate the tow lot.	Implemented
3. The director of Public Works should analyze the program's computer capabilities and needs, and should work with the city's Information Systems Division on automating record keeping and report preparation.	In progress
4. The director of Public Works should evaluate the program's equipment needs and dispose of vehicles not needed as a result of the shift to contract towing.	Implemented
5. The director of Public Works should shorten the amount of time that impounded vehicles are kept prior to disposal and evaluate the space needs of the tow lot in light of this change before relocating the facility.	Not Implemented
6. The chief of police should assess all owners tow fees in accordance with the city code or propose to the City Council changes to the code to authorize these fee waivers.	Implemented
7. The city manager should provide for City Council consideration an amendment to the city code that makes storage fees accrue when impounded vehicles enter the tow lot, but permits this fee to be waived when vehicles are claimed within 24 hours.	Implemented
8. The director of Public Works should work with the finance director to determine the city's annual cost for tow activities and set fee levels to recover these costs.	Implemented

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9. The directors of Public Works and Finance should establish a minimum bid for vehicles sold at auction, with those vehicles whose worth is estimated at less than the minimum bid sold directly to recyclers.	Withdrawn
10. The directors of Public Works and Finance should establish procedures to identify and segregate good condition vehicles and conduct auctions in a manner designed to dispose of vehicles in accordance with their potential value.	Withdrawn
11. The directors of Public Works and Finance should develop an information system to track the vehicles sold at auction, their condition, and bid amount in order to determine the effectiveness of changes made in the auction process.	In progress
12. The director of Finance should decrease the auction entry fee and place auction notifications in publications with greater exposure to increase the number of potential bidders at the monthly auctions.	Partially Implemented and Partially Withdrawn

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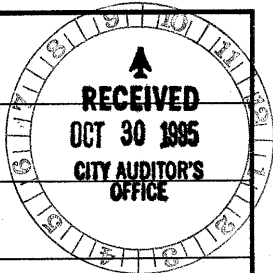
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## **Appendix B**

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### **Audit Report Tracking System (ARTS) Reports**



Audit Report Tracking System			
<b>1. Audit Title</b> Tow Service Program	<b>2. This Report Date</b> October 16, 1995		
<b>3. Department</b> Public Works Department	<b>4. Last Report Date</b> N/A		
<b>5. Department Head</b> George E. Wolf, Jr.	<b>6. Contact Person/Phone</b> Jerry Nelson/ 274-1686		
<b>7. Audit Release Date</b> January 30, 1995	<b>8. ARTS Number</b> 95-5-1		
<b>9. Status of All Recommendations</b>			
<u>Status</u>	<u>Date</u>	<u>Status</u>	<u>Date</u>
1. Rejected	5/1/95	7. Implemented	8/17/95
2. Implemented	5/1/95	8. Implemented	8/23/95
3. In Progress	10/16/95	9. Rejected	9/12/95
4. In Progress	10/16/95	10. Implemented	4/1/95
5. Rejected	4/1/95	11. In Progress	10/16/95
6. Not addressed to public works		12. Implemented	4/1/95
<b>10. Recommendations Included in this Report</b>			
<p><b>Recommendation No. 1:</b> The City Manager should provide the City Council and the Board of Police Commissioners with a plan to transfer dispatch responsibility for the Tow Service to the Police Department.</p> <p><b>Status:</b> Rejected. With relocating the tow service and the privatization of the tows, public works believes that the communication between the city and the private tow contractor will be more efficiently served by the city tow service administering the tow contracts and be the main contact point for the police department for tows. The Police Department in their response to the audit reported that they would need an additional six dispatchers to accomodate these duties. Our Tow service currently provides this function with 4 dispatchers and these individuals are also providing clerical support along with staffing the tow lot on a 24 hour basis.</p> <p><b>Recommendation No. 2.</b> The director of Public Works should implement a staffing plan consistent with or similar to the one in the privatization study to manage and operate the tow lot.</p> <p><b>Status:</b> Implemented. The tow service has reorganized based upon the recommendations of the privatization study. The total full time positions has been reduced from 17 to 13 to reflect the change in operation from city tow and storage to city storage and private tow.</p>			

Page 2 of 3

Audit Report Tracking System	
Audit Title:	Tow Service Program
Report Date:	October 16, 1995
10. Recommendations Included in this Report (continued)	
<b>Recommendation No. 3.</b> The director of Public Works should analyze the program's computer capabilities and needs, and should work with the City's Information System Division on automating record keeping and report preparation. <b>Status:</b> In Progress. The Public Works Department, along with the Finance Department are analyzing the tow service computer needs and are investigating different programs to track the status of each vehicle towed and stored in the tow service facility. Commercially available programs appear to meet these needs.	
<b>Recommendation No. 4.</b> The director of Public Works should evaluate the program's equipment needs and dispose of vehicles not needed as a result of the shift to contract towing. <b>Status:</b> In Progress. We have reduced our tow vehicle fleet from 9 to 5. The fleet will be reduced to 2 once the tow lot has been relocated.	
<b>Recommendation No. 5.</b> The director of Public Works should shorten the amount of time that impounded vehicles are kept prior to disposal and evaluate the space needs of the tow lot in light of this change before relocating the facility. <b>Status:</b> Rejected. In discussions with Finance and the Police Department, we found that the existing 30 day requirement in the Code should not be changed. Although Public Works would desire to reduce the time impounded vehicles are held, the Police Department, who sends out the notifications, believes that the current practice is fairer to the public.	
<b>Recommendation No. 6.</b> The Chief of Police should assess all owner's tow fees in accordance with the City Code or propose to the City Council changes to the Code to authorize these fee waivers. <b>Status:</b> Public Works has no involvement with this recommendation. We feel that there may be conditions that waivers may be necessary, however, we are not aware of the amount of fee waiving that currently occurs.	
<b>Recommendation No. 7.</b> The City Manager should provide for City Council consideration an amendment to the City Code which makes storage fees accrue when impounded vehicles are claimed within 24 hours. <b>Status:</b> Implemented. An amendment to section 70-643(b) has been passed by City Council on August 18, 1995. This amendment changes the method of calculating the storage charges. The storage charges will commence immediately after the vehicle is impounded. If the vehicle is released within the first 24 hours, no storage charge will be assessed.	
<b>Recommendation No. 8.</b> The director of Public Works should work with the Finance Director to determine the City's annual cost for towing activities and set fee levels to recover these costs. <b>Status:</b> Implemented. With the process that Public Works followed to evaluate and implement the recommendations to privatize the towing and city operation and relocation of the tow lot, a revision in the tow and storage fees has been recommended to the City Manager that covers the costs of towing activities. A communication, in accordance with the provisions in the city code, was received and filed by the City Council at their August 24, 1995 meeting. The new fees were implemented September 5, 1995.	

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Page 3 of 3	
<b>Audit Report Tracking System</b>	
<b>Audit Title:</b>	Tow Service Program
<b>Report Date:</b>	October 16, 1995
<b>10. Recommendations Included in this Report (continued)</b>	
<p><b>Recommendation No. 9.</b> The directors of Public Works and Finance should establish a minimum bid for vehicles sold at auction, with those vehicles whose worth is estimated at less than the minimum bid sold directly to recyclers.</p> <p><b>Status:</b> Rejected. The Finance Department established a minimum bid of \$80.00 for the vehicles sold at auction. This resulted in no sale of approximately 250 vehicles per month. Based upon this, the Finance Department decided to eliminate the minimum bid.</p> <p><b>Recommendation No. 10.</b> The directors of Public Works and Finance should establish procedures to identify and segregate good condition vehicles and conduct auctions in a manner designed to dispose of vehicles in accordance with their potential value.</p> <p><b>Status:</b> Implemented. Public Works and Finance have implemented procedures to identify and segregate vehicles by condition. This has not proven to increase the prices bid on these vehicles. We will continue to monitor this in the future.</p> <p><b>Recommendation No. 11.</b> The directors of Public Works and Finance should develop an information system to track the vehicles sold at auction, their condition, and bid amount in order to determine the effectiveness of changes made in the auction process.</p> <p><b>Status:</b> In Progress. The Public Works and Finance Departments are working together to implement an information system to track the vehicles that are impounded as a result of city ordered tow. This includes all vehicles not only those sold at auction. We are looking into commercially available computer software that can provide the proper data base for tracking the vehicles that come into the tow service.</p> <p><b>Recommendation No. 12.</b> The director of Finance should decrease the auction entry fee and place notifications in publications with greater exposure to increase the number of potential bidders at the monthly auctions.</p> <p><b>Status:</b> Implemented. The Finance Department reduced the entry fee from \$100.00 to \$50.00. We have noticed that decreasing the entry fee and the expansion of notifications in other publications have not increased the number of potential bidders at the monthly auctions.</p>	

<b>Audit Report Tracking System</b>			
<b>1.</b>	<b>Audit Title</b> Tow Service Program	<b>2.</b>	<b>This Report Date</b> October 18, 1996
<b>3.</b>	<b>Department</b> Public Works Department	<b>4.</b>	<b>Last Report Date</b> October 16, 1995
<b>5.</b>	<b>Department Head</b> George E. Wolf, Jr.	<b>6.</b>	<b>Contact Person/Phone</b> Jerry Nelson/ 274-1686
<b>7.</b>	<b>Audit Release Date</b> January 30, 1995	<b>8.</b>	<b>ARTS Number</b> 95-5-1
<b>9. Status of All Recommendations</b>			
	<u><b>Status</b></u>	<u><b>Date</b></u>	
	<u><b>Status</b></u>	<u><b>Date</b></u>	
1. Not Implemented	5/1/95	7. Implemented	8/17/95
2. Implemented	5/1/95	8. Implemented	8/23/95
3. In Progress	10/18/96	9. Not Implemented	9/12/95
4. Implemented	7/1/96	10. Implemented	4/1/95
5. Not Implemented	4/1/95	11. In Progress	10/18/96
6. Not addressed to public works		12. Implemented	4/1/95
<b>10. Recommendations Included in this Report</b>			
<p><b>Recommendation No. 1:</b> The City Manager should provide the City Council and the Board of Police Commissioners with a plan to transfer dispatch responsibility for the Tow Service to the Police Department.</p> <p><b>Status:</b> Not Implemented. The Police Department in their response to the audit reported that they would need an additional six dispatchers to accomodate these duties. Our tow service currently provides this function with 4 dispatchers and these individuals are also providing clerical support along with staffing the tow lot on a 24 hour basis. With relocating the tow service and the privatization of the tows, public works believes that the communication between the city and the private tow contractor will be more efficiently served by the city tow service administering the tow contracts and be the main contact point for the police department for tows.</p> <p><b>Recommendation No. 2.</b> The director of Public Works should implement a staffing plan consistent with or similar to the one in the privatization study to manage and operate the tow lot.</p> <p><b>Status:</b> Implemented. The tow service has reorganized based upon the recommendations of the privatization study. The total full time positions has been reduced from 17 to 13 to reflect the change in operation from city tow and storage to city storage and private tow. This is proving to be a great hardship to this operation. Overtime costs have gone up 65% at the tow lot and they have needed assistance from other sections 100 times on all of the shifts since this reduction in staff. Vacancies, sickleave and scheduled vacation create a need for help that can not be met by existing staff.</p>			

Page 2 of 3	
<b>Audit Report Tracking System</b>	
<b>Audit Title:</b>	Tow Service Program
<b>Report Date:</b>	October 18, 1996
<b>10. Recommendations Included in this Report (continued)</b>	
<p><b>Recommendation No. 3.</b> The director of Public Works should analyze the program's computer capabilities and needs, and should work with the City's Information System Division on automating record keeping and report preparation.</p> <p><b>Status:</b> In Progress. The Public Works Department, along with the Finance Department are analyzing the tow service computer needs and are investigating different programs to track the status of each vehicle towed and stored in the tow service facility. Commercially available software appears to be available to meet these needs, however the very limited access the tow lot has to the main frame computer reduces their effectiveness.</p> <p><b>Recommendation No. 4.</b> The director of Public Works should evaluate the program's equipment needs and dispose of vehicles not needed as a result of the shift to contract towing.</p> <p><b>Status:</b> Implemented. We have reduced our tow vehicle fleet from 9 to 2.</p> <p><b>Recommendation No. 5.</b> The director of Public Works should shorten the amount of time that impounded vehicles are kept prior to disposal and evaluate the space needs of the tow lot in light of this change before relocating the facility.</p> <p><b>Status:</b> Not Implemented. In discussions with Finance and the Police Department, we found that the notification process can not be expedited by the police department. Public Works offered to perform the notification, however the necessary police and department of motor vehicle records are denied to public works. The number of "hold" vehicles by the police are also increasing and Public Works has attempted to convince the police to address more timely releases. Police response has been that their staffing levels do not permit them to address this. Unless there is a change in police policy, this recommendation is unachievable by the director of public works. A new state law enacted on August 28, 1996 (Senate Bill 560) increases the required notifications and could result in holding vehicles longer.</p> <p><b>Recommendation No. 6.</b> The Chief of Police should assess all owner's tow fees in accordance with the City Code or propose to the City Council changes to the Code to authorize these fee waivers.</p> <p><b>Status:</b> Public Works has no involvement with this recommendation.</p> <p><b>Recommendation No. 7.</b> The City Manager should provide for City Council consideration an amendment to the City Code which makes storage fees accrue when impounded vehicles are claimed within 24 hours.</p> <p><b>Status:</b> Implemented. An amendment to section 70-643(b) has been passed by City Council on August 18, 1995. This amendment changes the method of calculating the storage charges. The storage charges will commence immediately after the vehicle is impounded. If the vehicle is released within the first 24 hours, no storage charge will be assessed.</p>	

**Audit Report Tracking System**

**Audit Title:** Tow Service Program

**Report Date:** October 18, 1996

**10. Recommendations Included in this Report (continued)**

**Recommendation No. 8.** The director of Public Works should work with the Finance Director to determine the City's annual cost for towing activities and set fee levels to recover these costs.

**Status:** Implemented. With the process that Public Works followed to evaluate and implement the recommendations to privatize the towing and city operation and relocation of the tow lot, a revision in the tow and storage fees was recommended to the City Manager that covers the costs of towing activities. A further refinement implemented since the last report rounded the fees to whole dollar figures.

**Recommendation No. 9.** The directors of Public Works and Finance should establish a minimum bid for vehicles sold at auction, with those vehicles whose worth is estimated at less than the minimum bid sold directly to recyclers.

**Status:** Not Implemented. The Finance Department established a minimum bid of \$80.00 for the vehicles sold at auction. This resulted in no sale of approximately 250 vehicles per month. Based upon this, the Finance Department decided to eliminate the minimum bid.

**Recommendation No. 10.** The directors of Public Works and Finance should establish procedures to identify and segregate good condition vehicles and conduct auctions in a manner designed to dispose of vehicles in accordance with their potential value.

**Status:** Implemented. Public Works and Finance have implemented procedures to identify and segregate vehicles by condition. In the new facility, the number of vehicles towed in has increased without any increase in releases making this impossible. The staffing level that we have is being utilized for other activities requiring us to pay a contractor to move vehicles around the sale lot. This cost will more than offset any increase in value received from this recommendation at this time. Therefore this practice has been suspended for the time being.

**Recommendation No. 11.** The directors of Public Works and Finance should develop an information system to track the vehicles sold at auction, their condition, and bid amount in order to determine the effectiveness of changes made in the auction process.

**Status:** In Progress. The Public Works and Finance Departments have been working together to develop such system to track the vehicles that are impounded as a result of city ordered tow. Access to the city's main frame computer is not available to the public works department making any implementation of this information system not available in the near future.

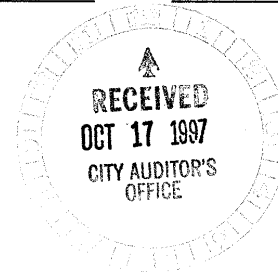
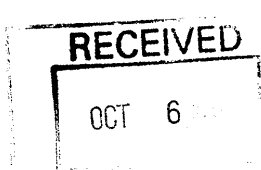
**Recommendation No. 12.** The director of Finance should decrease the auction entry fee and place notifications in publications with greater exposure to increase the number of potential bidders at the monthly auctions.

**Status:** Implemented. The Finance Department reduced the entry fee from \$100.00 to \$50.00.

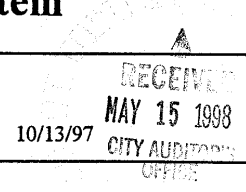


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<b>1.</b>	<b>Audit Title</b> Follow-Up Audit Report Tow Service Program	<b>2.</b>	<b>This Report Date</b>  4/14/97																								
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<b>7.</b>	<b>Audit Release Date</b>  30-Jan-95	<b>8.</b>	<b>ARTS Number</b>  95-5-1																								
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<p><b>RECOMMENDATION NO. 1: The City Manager should provide the City Council and the Board of Police Commissioners with a plan to transfer dispatch responsibility for the Tow Service to the Police Department.</b></p> <p><b>STATUS:</b> Not Implemented. The Police Department in their response to the audit reported that they would need an additional six dispatchers to accommodate these duties. Our Tow Service currently provides this function with 4 dispatchers and these individuals are also providing clerical support along with staffing the tow lot on a 24 hour basis. With relocating the tow service and the privatization of tows, Neighborhood and Community Services Department believes that the communication between the city and the private tow contractor at this time will be more efficiently served by the city tow service administering the contracts and be the main contact point for the police department for tows. However, with the change to NCSD this recommendation will be reevaluated in the next six months.</p> <p><b>RECOMMENDATION NO. 3: The director of Public Works should analyze the program's computer capabilities and needs, and should work with the City's Information System Division on automating record keeping and report preparation.</b></p> <p><b>STATUS:</b> In Progress. The Neighborhood and Community Services Department, along with OTIS are analyzing the two service computer needs and are investigating different programs to track the status of each vehicle towed and stored in the tow service facility. This must be accomplished in the next 12 months to make this a more efficient service.</p>																											

Page of	
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<b>Report Date:</b>	4/14/97
<b>10. Recommendations Included in this Report (continued)</b>	
<p><b>RECOMMENDATION NO. 5.</b> The director of Public Works should shorten the amount of time that impounded vehicles are kept prior to disposal and evaluate the space needs of the tow lot in light of this change before relocating the facility.</p> <p><b>STATUS:</b> Under Discussion. In discussions with the Finance and Police Departments, we found that the notification process can not be expedited by the police department. The number of "hold" vehicles by the police are also increasing and Public Works has attempted to convince the police to address more timely releases. Police response has been that their staffing levels do not permit them to address this. Unless there is a change in police policy, this recommendation is unachievable. A new state law enacted on August 28, 1996 (Senate Bill 560) actually increases the required notifications and could result in holding vehicles longer, so it is essential that this be resolved.</p> <p><b>RECOMMENDATION NO. 9.</b> The directors of Public Works and Finance should establish a minimum bid for vehicles sold at auction, with those vehicles whose worth is estimated at less than the minimum bid sold directly to recyclers.</p> <p><b>STATUS:</b> Not Implemented. The Finance Department established a minimum bid of \$80.00 for the vehicles sold at auction. This resulted in no sale of approximately 250 vehicles per month. Based upon this, the Finance Department decided to eliminate the minimum bid.</p> <p><b>RECOMMENDATION NO. 11.</b> The directors of Public Works and Finance should develop an information system to track the vehicles sold at auction, their condition, and bid amount in order to determine the effectiveness of changes made in the auction process.</p> <p><b>STATUS:</b> In Progress. The Public Works and Finance Departments and now NCSD have been working together to develop a good system to track the vehicles that are impounded as a result of city ordered tow. Access to the city's main frame computer is not available to Tow Services making any implementation of this information system not available at least in the near future. However, our plan is to somehow achieve this goal in the next year with computerization of the system. In addition, there have been several meetings discussing the establishment of a surplus property unit which would be responsible for the auction and sale of all city surplus property. The belief is that such a unit would maximize the value the city would get out of such sales and auctions. In addition, separating out this function would probably achieve additional efficiencies.</p>	

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Page 2 of 2	
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## Audit Report Tracking System

**Audit Title:** Follow-Up Audit Report - Tow Service Program

**Report Date:** 10/13/97

### 10. Recommendations Included in this Report (continued)

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The director of Public Works should shorten the amount of time that impounded vehicles are kept prior to disposal and evaluate the space needs of the tow lot in light of this change before relocating the facility.

**STATUS:**

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<b>3. Department</b> Neighborhood and Community Services	<b>4. Last Report Date</b> <div style="text-align: right;">5/15/98</div>																
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## Audit Report Tracking System

**Audit Title:** Follow-Up Audit Report - Tow Service Program

**Report Date:** 12/18/98

### 10. Recommendations Included in this Report (continued)

**RECOMMENDATION NO. 5:**

The director of Public Works should shorten the amount of time that impounded vehicles are kept prior to disposal and evaluate the space needs of the tow lot in light of this change before relocating the facility.

**STATUS:**

Under Discussion. The tow lot has been relocated since the recommendation was made. The recommendation is still valid, however, because the tow lot periodically runs out of space and the department is studying the feasibility of relocating the facility to land owned by the City. This relocation, and other operational changes, are planned to consolidate some Police, Finance, and Neighborhood and Community Service functions to the same physical location to improve efficiency and service to citizens. One goal of planned changes is to dispose of vehicles as soon as possible to minimize space needs.

**RECOMMENDATION NO. 11:**

The directors of Public Works and Finance should develop an information system to track the vehicles sold at auction, their condition, and bid amount in order to determine the effectiveness of changes made in the auction process.

**STATUS:**

In progress. Implementation of this recommendation is related to Recommendation No. 3. The Access database, or new system, will track the sale price of vehicles sold and provide the type of information to assess operational changes that may be made to increase cost recovery through sales of impounded vehicles.

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<b>Audit Report Tracking System</b>			
<b>1. Audit Title</b> Follow-Up Audit Report Tow Service Program	<b>2. This Report Date</b> <div style="text-align: right;">5/1/99</div>		
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3. In Progress	5/1/99		
5. In Progress	5/1/99		
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## Audit Report Tracking System

**Audit Title:** Follow-Up Audit Report - Tow Service Program

**Report Date:** 5/1/99

### 10. Recommendations Included in this Report (continued)

**RECOMMENDATION NO. 5:**

The director of Public Works should shorten the amount of time that impounded vehicles are kept prior to disposal and evaluate the space needs of the tow lot in light of this change before relocating the facility.

**STATUS:**

Under Discussion. The tow lot has been relocated since the recommendation was made. The recommendation is still valid, however, because the tow lot periodically runs out of space and the department is studying the feasibility of relocating the facility to land owned by the City. This relocation, and other operational changes, are planned to consolidate some Police, Finance, and Neighborhood and Community Service functions to the same physical location to improve efficiency and service to citizens. One goal of planned changes is to dispose of vehicles as soon as possible to minimize space needs.

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## **Appendix C**

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### **Neighborhood and Community Services Director's Response**





## INTER-DEPARTMENTAL COMMUNICATION

RECEIVED  
JUL 13 1999  
CITY AUDITOR'S  
OFFICE

DATE: July 12, 1999

TO: Mark Funkhouser, City Auditor

FROM: Robert J. Mohart, Director, Neighborhood and Community Services

SUBJECT: Response to Tow Service Program Follow-up Audit Report

Thank you for the draft audit report and the opportunity to provide this response.

It appears your audit team developed a good understanding of the tow services program operation and identified improvements that have occurred since the 1995 audit. In addition, this understanding led to sound suggestions for continued improvement.

I wish to address a few points in the audit findings.

The audit concludes tow and storage fees exceed the average cost of towing and storing a vehicle -- and that revenue from the fees does not cover program costs. One may ask how both could be true, but I understand the point being made. Those who pay tow fees are picking up part of the tab for those who do not, either because their fees are waived or because they do not claim their vehicles. This is a factor in any business, however. Prices are set to cover unrecoverable costs, such as losses due to unpaid debts and shoplifting. We have attempted to set fees to produce the actual revenue needed to cover program costs.

You point out that internal controls will be needed after consolidation. Internal controls will be strengthened through consolidation. It will be easier to monitor and track areas vulnerable to theft with operations under control of one department.

The capacity of the tow lot, as you pointed out, is insufficient to handle demand. A new facility to alleviate this problem is three years away. In the meantime, however, we will explore contracting for storage on private storage lots to handle the overflow.

We are continuing efforts to shorten the length of time vehicles spend at the lot before they are auctioned. Enhancement of the process for notifying vehicle owners that their vehicles are at the lot will shorten the time vehicles are held. We will also propose limits on the amount of time a vehicle may be placed on hold by the police. And finally, a new structure for fees will establish a maximum fee that may be assessed against a vehicle in an effort to encourage more owners to recover their vehicles. The efforts are designed to move vehicles off the lot faster, either by releasing them to the owners or by selling them at auction.

The audit states there was a substantial number of cars found missing during a time period of July 1997 to January 1998. I believe this was based on the initial findings of an audit performed by Finance. It was later determined only one vehicle was unaccounted for. The others were

Response to Tow Service Program Follow-up Audit Report, continued.

determined to have been recovered by the owner immediately before or after the monthly sale, or were placed on hold by police.

One finding of the audit is that personal property was removed from vehicles. This apparently refers to a time when staff removed items perceived to be of value for safekeeping in the tow lot office. Shortly after the move to this location and because its layout made monitoring the lot more difficult, items were removed and stored in the office to protect them from theft. This department enhanced the security camera system and staff no longer removes items from vehicles for safekeeping.

The audit report contains eight recommendations. I will comment on each.

1. Agree. Neighborhood and Community Services plans to continue with the relocation of the facility to city-owned property. Design of the facility will be started so construction can begin soon after the flood control project in the intended area is completed.
2. Agree. A policy will be proposed so police holds automatically expire unless an action is taken to extend the hold.
3. Agree. Once Neighborhood and Community Services begins sending the required notices and maintaining these records, it will be easier to track the dates notices are sent. A review of each vehicle's record will be done prior to its sale to ensure required notices were sent and sufficient time was allowed for the owner to reclaim it.
4. Under consideration. This recommendation impacts the Finance Department and Budget and Systems, who would be involved with decisions to redirect revenue from vehicle auctions. The recommendation will be discussed with the appropriate officials from those departments. Also, it is not always clear which costs are auction related versus tow and storage related. If revenue from the auction is considered in setting towing and storage fees, and fees are lowered, an overall reduction in general revenue for the City will result.
5. Agree. Policies will be developed for council consideration.
6. Agree.
7. Agree.
8. Agree. The City Security Manager has already had significant input into facility layout, fencing, lighting, and camera issues to be considered. He will continue to have input as the facility is designed.

Again, thank you for the opportunity to comment on the audit report. The audit team did a fine job in assessing the operation and making suggestions for continued improvement.